

Message Text

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E.O. 11652: N/A

TAGS: EINV, RO, EEWT

SUBJECT: GOR-ISLAND CREEK JOINT VENTURE

REF: STATE 176374 (NOTAL)

1. DURING MEETING WITH DEPUTY MINISTER OF FOREIGN TRADE AND INTERNATIONAL ECON. COOP FLORESCU JULY 31, HELD TO DISCUSS STATUS OF NEGOTIATIONS FOR A LARGE NUMBER OF JOINT VENTURES AND OTHER PROJECTS FOR COOPERATION IN PRODUCTION BETWEEN U.S. FIRMS AND ROMANIA (BUCHAREST 3750), EMBOFF AGAIN RAISED THE POINT THAT USG IS SEEKING CLOSE CONSULTATIONS ON THE ISLAND CREEK JOINT VENTURE, REITERATING THAT THIS BY NO MEANS IMPLIED A PREJUDGMENT AGAINST THE PROJECT. FLORESCU SAID HE UNDERSTOOD OUR REQUIREMENT. HE STRESSED, HOWEVER, THAT ROMANIA WAS NOT SEEKING INVESTMENT IN THE U.S. FOR ITS OWN SAKE. ROMANIA WOULD PREFER TO EMPLOY ITS CAPITAL AT HOME, NOT TIE IT UP ABROAD. IN THIS CASE, HOWEVER, ROMANIA NEEDED AN ASSURED SUPPLY OF

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COKING COAL AND DIRECT INVESTMENT APPEARED TO BE THE BEST

WAY TO OBTAIN IT.

2. ACCORDING TO FODOR, ROMANIAN COMMERCIAL COUNSELOR IN NEW YORK, BOGDAN HAS ALREADY REPLIED TO PARSKY QUESTIONS (REFTEL). NEVERTHELESS, PERHAPS THE FOLLOWING EMBASSY COMMENTS WILL BE USEFUL AS BACKGROUND FOR FURTHER CONSULTATIONS IN WASHINGTON, COMMITTEE ON FOREIGN INVESTMENT DISCUSSION, OR IN REPLIES TO OUTSIDE INQUIRIES.

A. SECURING ADEQUATE SUPPLIES OF COKING COAL IS AN IMPORTANT, AND PERHAPS CRITICAL, FACTOR IN ROMANIA'S INTERNAL DEVELOPMENT PLANNING AND ITS FOREIGN ECONOMIC RELATIONS. ROMANIA'S 1976-80 FIVE-YEAR PLAN WILL GIVE CONTINUED EMPHASIS TO HEAVY INDUSTRY, ESPECIALLY IRON AND STEEL. DIRECTIVES OF THE 11TH PARTY CONGRESS FOR THE FIVE-YEAR PLAN SPECIFY STEEL PRODUCTION OF 17 TO 18 MILLION TONS IN 1980, DOUBLE THE 8.8 MILLION TONS PRODUCED IN 1975. GUIDELINES FOR 1990 INDICATE 25 TO 27 MILLION TONS. ALTHOUGH THE DIRECTIVES CALL FOR USE OF DOMESTIC BITUMINOUS COAL FOR COKE, WE GATHER PAST EFFORTS HAVE BEEN GENERALLY UNSUCCESSFUL IN PRODUCING METALLURGICAL COKE, APPARENTLY BECAUSE QUALITY OF ROMANIA'S COAL IS NOT SUITABLE.

B. ROMANIA'S DEPENDENCE UPON IMPORTS OF COKE AND OF COKING COAL HAS GROWN ALONG WITH THE STEEL INDUSTRY. COKE HAS BEEN MORE IMPORTANT, GROWING FROM 929,800 TONS IN 1965 TO 2,965,000 IN 1973, SUPPLIED PRIMARILY BY THE SOVIET UNION (1.3 MILLION TONS), CZECHOSLOVAKIA (611,900), CHINA, POLAND, WEST GERMANY AND ITALY. ALTHOUGH OFFICIAL STATISTICS CONTAIN DISCREPANCIES, ROMANIA IMPORTED ABOUT 1.3 MILLION TONS OF WASHED COKING COAL IN 1973, OF WHICH 435,600 WAS FROM CZECHOSLOVAKIA AND 471,500 FROM THE USSR. ROMANIAN STATISTICS DO NOT SHOW COKING COAL IMPORTS FROM THE U.S.; BUT BY U.S. STATISTICS THEY WERE WORTH SOME \$6 MILLION IN 1973, \$5.5 MILLION IN 1974 AND \$3.4 MILLION IN FIRST 5 MONTHS OF 1975. THE U.S. SHORTAGE OF RAIL CARS, HIGH DEMAND FOR COAL AND ULTIMATELY MINeworkERS STRIKE LAST YEAR PLAYED HAVOC WITH ROMANIAN CONTRACTS, WHICH ROMANIA RELUCTANTLY RENEGOTIATED FOR MUCH HIGHER PRICES. THE LIMITED OFFICIAL USE

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MAJOR U.S. SUPPLIER, CONSOLIDATION COAL, WAS UNABLE TO MEET EVEN REVISED DELIVERY SCHEDULES. ROMANIAN OFFICIALS REDOUBLED THEIR EFFORTS TO OBTAIN EITHER A JOINT VENTURE OR LONG-TERM CONTRACTS WITH RESERVED CAPACITY. DISCUSSIONS WITH ISLAND CREEK BEGAN SERIOUSLY IN FALL 1974, A 6-YEAR SUPPLY CONTRACT WITH ISLAND CREEK WAS SIGNED, AND NEGOTIATIONS BEGAN ON ADDITIONAL CONTRACTS WITH CONSOLIDATION COAL.

C. THE CURRENT JOINT VENTURE WITH ISLAND CREEK ENJOYS TOP LEVEL SUPPORT. FORMER SENATOR ALBERT GORE (ISLAND CREEK'S PRESIDENT) AND THE AMBASSADOR MET WITH PRESIDENT CEAUSESCU DURING NEGOTIATIONS FOR THE JOINT VENTURE FRAMEWORK AGREEMENT IN JUNE. CEAUSESCU HAS PUBLICLY CITED COKING COAL ON SEVERAL OCCASIONS AS ONE OF THE VITAL IMPORTS OF RAW MATERIALS FOR WHICH ROMANIA MUST ECONOMIZE FOREIGN EXCHANGE, MOST RECENTLY IN ADDRESSING THE JOINT PLENUM OF THE PARTY CENTRAL COMMITTEE AND THE SUPREME COUNCIL FOR ECONOMIC AND SOCIAL DEVELOPMENT ON JULY 21-22.

D. WE CONCLUDE THAT GOR'S DETERMINATION TO PURSUE U.S. SOURCES OF COKING COAL REPRESENTS A PART OF ITS GENERAL POLICY TO DIVERSIFY ITS SOURCES OF SUPPLY AND TO REDUCE ITS ECONOMIC DEPENDENCE UPON THE SOVIET UNION, A POLICY CONFIRMED BY ROMANIA'S AWARENESS OF THE VULNERABILITY OF OTHER EASTERN EUROPEAN COUNTRIES TO THEIR OIL IMPORTS FROM THE USSR. INFO ADDRESSEES MAY BE ABLE TO PROVIDE MORE ACCURATE INFORMATION ON EAST EUROPEAN SUPPLIES OF EXPORTABLE COKING COAL, BUT WE UNDERSTAND THAT THEY ARE LIMITED, EVEN IN POLAND AND CZECHOSLOVAKIA, AND THAT THERE MAY BE REASON TO DOUBT THAT CEMA COUNTRIES OTHER THAN USSR WILL BE WILLING TO CONTINUE EXPANDING EXPORTS TO ROMANIA AT A PACE EQUIVALENT TO ROMANIA'S PLANS FOR ITS IRON AND STEEL INDUSTRY. OTHER THAN THE U.S., WESTERN SOURCES HAVE PROVIDED ONLY RELATIVELY SMALL QUANTITIES, MOSTLY IN THE FORM OF COKE. FROM ROMANIA'S PERSPECTIVE, THE ALTERNATIVE TO ASSURED SUPPLIES FROM THE U.S. IS INCREASINGLY DISADVANTAGEOUS BARGAINING WITHIN CEMA AND EVENTUALLY DEPENDENCE UPON THE USSR. A THEORETICAL ALTERNATIVE, CURTAILING GOR INDUSTRIALIZATION PLANS, IS STILL UNTHINKABLE HERE.

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F. HAVING A MAJOR INVESTMENT IN THE U.S. COULD INFLUENCE GOR POLICY TOWARD JOINT VENTURES HERE, PARTICULARLY WITH U.S. COMPANIES. GOR POLICY CONTINUES TO FAVOR THEM, BUT ONLY A FEW HAVE ACTUALLY GONE INTO OPERATION WITHIN ROMANIA, EITHER FOR LACK OF REALISTIC GOR TERMS OR OUT OF BUREAUCRATIC HESITANCY TO BE COMMITTED TO OUTSIDERS TOO QUICKLY. ESPECIALLY IN MINING, IN WHICH GOR HAS TENTATIVELY CONSIDERED SEVERAL PROJECTS FOR COOPERATION, EXPERIENCE IN THE U.S. COULD IMPROVE OPPORTUNITIES FOR U.S. FIRMS SUBSTANTIALLY. AS A MINIMUM, WE WOULD EXPECT A GROWING ACCEPTANCE OF U.S. TECHNOLOGY AND EQUIPMENT IN ROMANIAN COAL MINES.

G. FOR THE RECORD, WE DID NOT INTERPRET ILIESCU'S

SKEPTICISM REGARDING U.S. APPROVAL OF THE ISLAND CREEK
JOINT VENTURE AS DIRECTED AT USG USE OF THE COMMITTEE

(REFTEL PARA 6). RATHER, IT SEEMED TO BE A BASIC
POLITICAL SKEPTICISM, STEMMING PERHAPS FROM ILIESCU'S
INABILITY TO COMPREHEND THE HETEROGENEITY AND COMPLEXITY
OF THE U.S. (HE DOES NOT SPEAK OR READ ENGLISH). WE HAVE
FORWARDED POUCHED MATERIALS AND INFORMATION CONTAINED IN
STATE 173634 TO HIM.

3. GIVEN THE POLITICAL AND ECONOMIC IMPORTANCE OF THIS
PROJECT TO GOR, EMBASSY APPRECIATES BEING KEPT INFORMED OF

WASHINGTON CONSULTATIONS AND ANY COMMITTEE ON FOREIGN
INVESTMENT ACTION ON IT.
BARNES

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